

rights become nonforfeitable shall be excluded from the gross income of the employee for the taxable year only to the extent that the aggregate of such amounts does not exceed the exclusion allowance (as herein defined) for such taxable year. In addition, the employee shall include in his gross income the amounts received under such annuity contract for the year received as provided in G.S. 105-141.1 (relating to annuities).

b. For purposes of this subdivision, the 'exclusion allowance' for an employee for the taxable year is an amount equal to the excess, if any, of (1) the amount determined by multiplying 20 per cent of his includible compensation (as herein defined) by the number of years of service, over (2) the aggregate of the amounts contributed by the employer for annuity contracts and excludable from gross income of the employee for any prior taxable year.

For purposes of this subdivision, the term 'includible compensation' means, in the case of any employee, the amount of compensation which is received from the employer described in the first paragraph of this subdivision, and which is includible in gross income for the most recent period (ending not later than the close of the taxable year) which under the following paragraph may be counted as one year of service. Such term does not include any amount contributed by the employer for any annuity contract to which this subdivision applies.

In determining the number of years of service for purposes of this subdivision there shall be included (1) one year for each full year during which the individual was a full-time employee of the organization purchasing the annuity for him, and (2) a fraction of a year (determined as the Commissioner of Revenue may prescribe) for each full year during which such individual was a part-time employee of such organization and for each part of a year during which such individual was a full-time or part-time employee of such organization. In no case shall the number of years of service be less than one.

If for any taxable year of the employee this subdivision applies to two or more annuity contracts purchased by the employer, such contracts shall be treated as one contract.

For purposes of this subdivision and G.S. 105-141.1(e) (relating to specific rules for computing employees' contributions to annuity contract), if rights of the employee under an annuity contract described in the first paragraph of this subdivision change from forfeitable to nonforfeitable rights, then the amount (determined without regard to this subsection) includible in gross income by reason of such change shall be treated as an amount contributed by the employer for such annuity contract as of the time such rights become nonforfeitable."

The provisions of this subdivision shall not apply to any amounts contributed by an employer pursuant to an agreement to take a reduction in salary or to forego an increase in salary.

**Sec. 2.** This act shall become effective on and after January 1, 1971, and shall apply to taxable years beginning on and after January 1, 1971.

In the General Assembly read three times and ratified, this the 7th day of July, 1971.